

**REPORT OF THE AUDIT OF THE  
LETCHER COUNTY  
FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**



**CRIT LUALLEN  
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C R I T L U A L L E N  
A U D I T O R O F P U B L I C A C C O U N T S

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John R. Farris, Secretary  
Finance and Administration Cabinet  
Honorable Carroll Smith, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

The enclosed report prepared by Ross & Company, PLLC, Certified Public Accountant, presents the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements.

We engaged Ross & Company, PLLC to perform the audit of these financial statements. We worked closely with the firm during our report review process; Ross & Company, PLLC evaluated the Letcher County's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen".

Crit Luallen  
Auditor of Public Accounts

Enclosure





## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE LETCHER COUNTY FISCAL COURT**

**For The Fiscal Year Ended  
June 30, 2005**

Ross and Company, PLLC has completed the audit of the Letcher County Fiscal Court for fiscal year ended June 30, 2005. We have issued an unqualified opinion on the governmental activities, business-type activities, each major fund, and the aggregate remaining fund information.

#### **Financial Condition:**

The fiscal court had net assets of \$6,391,583 as of June 30, 2005. The fiscal court had unrestricted net assets of \$2,683,136 in its governmental activities as of June 30, 2005, with total net assets of \$6,325,401. In its business-type activities, total net cash and cash equivalents were \$66,182 with total net assets of \$66,182. The fiscal court had total debt principal as of June 30, 2005 of \$3,985,000 with \$101,000 due within the next year.

#### **Report Comments:**

- The Fiscal Court Should Annually Review The Administrative Code
- The Jailer Should Submit An Annual Settlement To The County Treasurer
- Jail Operating Expenditures Should Be Paid From The Jail Fund

#### **Deposits:**

The fiscal court's deposits were insured and collateralized by bank securities or bonds.



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To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John Farris, Secretary  
Finance and Administration Cabinet  
Honorable Carroll Smith, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Letcher County Fiscal Court. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of other auditors provide a reasonable basis for our opinions.

As described in Note 1, Letcher County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with the basis of accounting described in Note 1.

To the People of Kentucky  
Honorable Ernie Fletcher, Governor  
John Farris, Secretary  
Finance and Administration Cabinet  
Honorable Carroll Smith, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

The county has not presented the management's discussion and analysis that the Government Accounting Standards Board (GASB) has determined is necessary to supplement, although not required to be a part of, the basic financial statements. The Budgetary Comparison Information is not a required part of the basic financial statement but is supplementary information required by GASB. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the budgetary comparison information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Letcher County, Kentucky's basic financial statements. The accompanying supplementary information, combining fund financial statements are presented for additional analysis and are not a required part of the basic financial statements. The combining fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

In accordance with Government Auditing Standards, we have also issued our report dated June 23, 2006 on our consideration of Letcher County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Fiscal Court Should Annually Review The Administrative Code
- The Jailer Should Submit An Annual Settlement To The County Treasurer
- Jail Operating Expenditures Should Be Paid From The Jail Fund

Respectfully submitted,



Ross & Company, PLLC

Audit fieldwork completed -  
June 23, 2006

LETCHER COUNTY OFFICIALS

For The Year Ended June 30, 2005

**Fiscal Court Members:**

|                  |                        |
|------------------|------------------------|
| Carroll A. Smith | County Judge/Executive |
| Jim Ward         | Magistrate             |
| Wayne Fleming    | Magistrate             |
| Trey Narramore   | Magistrate             |
| Terry Adams      | Magistrate             |
| Randall Caudill  | Magistrate             |

**Other Elected Officials:**

|                  |                                  |
|------------------|----------------------------------|
| Harrold Bolling  | County Attorney                  |
| Gary Cornett     | Jailer                           |
| Winston Meade    | County Clerk                     |
| Margaret Nichols | Circuit Court Clerk              |
| Danny Webb       | Sheriff                          |
| Randy Hall       | Property Valuation Administrator |
| John Cornett     | Coroner                          |

**Appointed Personnel:**

|                 |                   |
|-----------------|-------------------|
| Phillip Hampton | County Treasurer  |
| Robin Kincer    | Finance Officer   |
| Linda Bailey    | Payroll Clerk     |
| Jim Revis       | 911 Administrator |

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**LETCHER COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**



**LETCHER COUNTY**  
**STATEMENT OF NET ASSETS - MODIFIED CASH BASIS**

**June 30, 2005**

|   | Primary Government |               |              |
|---|--------------------|---------------|--------------|
|   | Governmental       | Business-Type |              |
|   | Activities         | Activities    | Totals       |
| <b>ASSETS</b>                                     |                    |               |              |
| Current Assets:                                   |                    |               |              |
| Cash and Cash Equivalents                         | \$ 2,683,136       | \$ 66,182     | \$ 2,749,318 |
| Total Current Assets                              | 2,683,136          | 66,182        | 2,749,318    |
| Noncurrent Assets:                                |                    |               |              |
| Capital Assets - Net of Accumulated Depreciation: |                    |               |              |
| Land and Land Improvements                        | 1,416,000          |               | 1,416,000    |
| Buildings   | 5,657,141          |               | 5,657,141    |
| Vehicles and Equipment                            | 310,252            |               | 310,252      |
| Infrastructure Assets-Net of Depreciation:        | 243,872            |               | 243,872      |
| Total Noncurrent Assets                           | 7,627,265          |               | 7,627,265    |
| Total Assets                                      | 10,310,401         | 66,182        | 10,376,583   |
| <b>LIABILITIES</b>                                |                    |               |              |
| Current Liabilities:                              |                    |               |              |
| Bonds Payable                                     | 101,000            |               | 101,000      |
| Total Current Liabilities                         | 101,000            |               | 101,000      |
| Noncurrent Liabilities:                           |                    |               |              |
| Bonds Payable                                     | 3,884,000          |               | 3,884,000    |
| Total Noncurrent Liabilities                      | 3,884,000          |               | 3,884,000    |
| Total Liabilities                                 | 3,985,000          |               | 3,985,000    |
| <b>NET ASSETS</b>                                 |                    |               |              |
| Invested in Capital Assets, Net of Related Debt   | 3,642,265          |               | 3,642,265    |
| Unrestricted                                      | 2,683,136          | 66,182        | 2,749,318    |
| Total net assets                                  | \$ 6,325,401       | \$ 66,182     | \$ 6,391,583 |

The accompanying notes are an integral part of the financial statements.

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**LETCHER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**

**LETCHER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

|  |              | Program Revenues Received |  |
|--|--------------|---------------------------|--|
| Functions/Programs<br>Reporting Entity | Expenses     | Charges for<br>Services   | Operating<br>Grants and<br>Contributions |
| Primary Government:                    |              |                           |  |
| Governmental Activities:               |              |                           |  |
| General Government                     | \$ 918,822   | \$                        | \$ 713,267                               |
| Protection to Persons and Property     | 1,030,729    | 7,164                     | 468,820                                  |
| General Health and Sanitation          | 2,039,043    | 1,074,981                 | 177,700                                  |
| Social Services                        | 504,490      |                           | 143,617                                  |
| Recreation and Culture                 | 179,159      |                           |  |
| Roads                                  | 1,173,950    |                           | 3,218,561                                |
| Debt Service (Interest)                | 193,895      |                           |  |
| Capital Projects                       | 594,338      |                           |  |
| Administration                         | 1,056,323    |                           |  |
| Total Governmental Activities          | 7,690,749    | 1,082,145                 | 4,721,965                                |
| Business-type Activities:              |              |                           |  |
| Jail Canteen                           | 168,001      | 186,022                   |  |
| Total Business-type Activities         | 168,001      | 186,022                   |  |
| Total Primary Government               | \$ 7,858,750 | \$ 1,268,167              | \$ 4,721,965                             |

**General Revenues:**

Taxes:  
     Real Property Taxes  
     Personal Property Taxes  
     Other Taxes  
     Motel Tax  
     In Lieu of Taxes  
 Excess Fees  
 Unrestricted Investment Earnings  
  
 Miscellaneous Revenues  
  
 Total General Revenues  
 Change in Net Assets  
 Net Assets - Beginning  
  
 Net Assets - Ending

The accompanying notes are an integral part of the financial statements.

**LETCHER COUNTY**  
**STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

| <b>Net (Expenses) Revenues<br/>and Changes in Net Assets</b> |                                     |               |
|--|-------------------------------------|---------------|
| <b>Primary Government</b>                                    |                                     |               |
| <b>Governmental<br/>Activities</b>                           | <b>Business-Type<br/>Activities</b> | <b>Totals</b> |
| \$ (205,555)   | \$                                  | \$ (205,555)  |
| (554,745)  |                                     | (554,745)     |
| (786,362)  |                                     | (786,362)     |
| (360,873)  |                                     | (360,873)     |
| (179,159)  |                                     | (179,159)     |
| 2,044,611  |                                     | 2,044,611     |
| (193,895)  |                                     | (193,895)     |
| (594,338)  |                                     | (594,338)     |
| (1,056,323)  |                                     | (1,056,323)   |
| (1,886,639)  |                                     | (1,886,639)   |
|  | 18,021                              | 18,021        |
|  | 18,021                              | 18,021        |
| (1,886,639)  | 18,021                              | (1,868,618)   |
| 522,389  |                                     | 522,389       |
| 105,803  |                                     | 105,803       |
| 173,368  |                                     | 173,368       |
| 493,299  |                                     | 493,299       |
| 16,967   |                                     | 16,967        |
| 1,709  |                                     | 1,709         |
| 61,236   |                                     | 61,236        |
| 54,031   |                                     | 54,031        |
| 245,962  |                                     | 245,962       |
| 1,674,764  |                                     | 1,674,764     |
| (211,875)  | 18,021                              | (193,854)     |
| 6,537,276  | 48,161                              | 6,585,437     |
| \$ 6,325,401   | \$ 66,182                           | \$ 6,391,583  |

The accompanying notes are an integral part of the financial statements.

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**LETCHER COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

**LETCHER COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**June 30, 2005**

|                           | <b>General<br/>Fund</b> | <b>Road<br/>Fund</b> | <b>Local<br/>Government<br/>Economic<br/>Assistance<br/>Fund</b> | <b>Public<br/>Properties<br/>Corporation<br/>1999 Bond<br/>Fund</b> |
|---------------------------|-------------------------|----------------------|--|---|
| <b>ASSETS</b>             |                         |                      |  |   |
| Cash and Cash Equivalents | \$ 386,945              | \$ 988,300           | \$ 899,943   | \$ 319,539  |
| Total assets              | <u>\$ 386,945</u>       | <u>\$ 988,300</u>    | <u>\$ 899,943</u>  | <u>\$ 319,539</u>   |
| <b>FUND BALANCES</b>      |                         |                      |  |   |
| Reserved for:             |                         |                      |  |   |
| Encumbrances              | \$ 42,150               | \$ 4,587             | \$ 9,885   | \$  |
| Unreserved:               |                         |                      |  |   |
| General Fund              | 344,795                 |                      |  |   |
| Special Revenue Fund      |                         | 983,713              | 890,058  |   |
| Debt Service Fund         |                         |                      |  | 319,539   |
| Total Fund Balances       | <u>\$ 386,945</u>       | <u>\$ 988,300</u>    | <u>\$ 899,943</u>  | <u>\$ 319,539</u>   |

The accompanying notes are an integral part of the financial statements.

**LETCHER COUNTY**  
**BALANCE SHEET - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

| <b>Non-<br/>Major<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---------------------------------|---|
| <u>\$ 88,409</u>                | <u>\$ 2,683,136</u>                     |
| <u><u>\$ 88,409</u></u>         | <u><u>\$ 2,683,136</u></u>              |
| <br>                            |   |
| \$ 7,222                        | \$ 63,844                               |
|                                 | 344,795                                 |
| 81,187                          | 1,954,958                               |
| <u>                    </u>     | <u>319,539</u>                          |
| <br>                            |   |
| <u><u>\$ 88,409</u></u>         | <u><u>\$ 2,683,136</u></u>              |

**Reconciliation of Balance Sheet - Governmental Funds to Statement of Net Assets:**

|  |                            |
|--|----------------------------|
| Total Fund Balances  | \$ 2,683,136               |
| Amounts Reported For Governmental Activities In The Statement<br>Of Net Assets Are Different Because:                      |                            |
| Capital Assets Used in Governmental Activities Are Not Financial Resources<br>And Therefore Are Not Reported in the Funds. | 9,205,862                  |
| Accumulated Depreciation   | (1,578,597)                |
| Long-term debt is not due and payable in the current period and,<br>therefore, is not reported in the funds.               |                            |
| Bonded Debt  | <u>(3,985,000)</u>         |
| Net Assets Of Governmental Activities  | <u><u>\$ 6,325,401</u></u> |

The accompanying notes are an integral part of the financial statements.

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**LETCHER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

**LETCHER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

|   | <b>General<br/>Fund</b> | <b>Road<br/>Fund</b> | <b>Local<br/>Government<br/>Economic<br/>Assistance<br/>Fund</b> | <b>Public<br/>Properties<br/>Corporation<br/>1999<br/>Bond Fund</b> |
|---|-------------------------|----------------------|--|---|
| <b>REVENUES</b>   |                         |                      |  |   |
| Taxes   | \$ 1,290,354            | \$                   | \$ 16,967  | \$  |
| In Lieu Tax Payments  |                         | 1,709                |  |   |
| Excess Fees   | 61,236                  |                      |  |   |
| Intergovernmental   | 636,764                 | 911,468              | 2,379,001  | 128,000   |
| Charges for Services  | 1,074,981               |                      |  |   |
| Miscellaneous   | 195,436                 | 163                  | 17,362   |   |
| Interest  | 7,064                   | 16,650               | 23,392   | 5,933   |
| Total Revenues  | <u>3,265,835</u>        | <u>929,990</u>       | <u>2,436,722</u>   | <u>133,933</u>  |
| <b>EXPENDITURES</b>   |                         |                      |  |   |
| General Government  | 674,655                 | 25,188               | 93,712   |   |
| Protection to Persons and Property  | 298,962                 |                      | 102,161  |   |
| General Health and Sanitation   | 1,136,450               | 19,277               | 652,461  |   |
| Social Services   | 74,585                  |                      | 19,142   |   |
| Recreation and Culture  |                         |                      | 169,917  |   |
| Roads   |                         | 733,727              | 507,888  |   |
| Debt Service  |                         |                      |  |   |
| Principal   |                         |                      |  | 97,000  |
| Interest  |                         |                      |  | 193,895   |
| Capital Projects  | 15,740                  |                      | 561,485  |   |
| Administration  | 679,309                 | 147,761              | 31,837   |   |
| Total Expenditures  | <u>2,879,701</u>        | <u>925,953</u>       | <u>2,138,603</u>   | <u>290,895</u>  |
| Excess (Deficiency) of Revenues Over<br>Expenditures Before Other<br>Financing Sources (Uses) | <u>386,134</u>          | <u>4,037</u>         | <u>298,119</u>   | <u>(156,962)</u>  |
| <b>Other Financing Sources (Uses)</b>   |                         |                      |  |   |
| Transfers From Other Funds  | 450,000                 | 430,000              |  | 193,013   |
| Transfers To Other Funds  | (643,013)               | (430,000)            | (772,000)  |   |
| Total Other Financing Sources (Uses)  | <u>(193,013)</u>        | <u></u>              | <u>(772,000)</u>   | <u>193,013</u>  |
| Net Change in Fund Balances   | 193,121                 | 4,037                | (473,881)  | 36,051  |
| Fund Balances - Beginning   | 193,824                 | 984,263              | 1,373,824  | 283,488   |
| Fund Balances - Ending  | <u>\$ 386,945</u>       | <u>\$ 988,300</u>    | <u>\$ 899,943</u>  | <u>\$ 319,539</u>   |

The accompanying notes are an integral part of the financial statements.

**LETCHER COUNTY**  
**STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN**  
**FUND BALANCES - GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**For The Year Ended June 30, 2005**  
**(Continued)**

| <b>Non-<br/>Major<br/>Funds</b> | <b>Total<br/>Governmental<br/>Funds</b> |
|---------------------------------|---|
| \$ 4,505                        | \$ 1,311,826                            |
|                                 | 1,709                                   |
|                                 | 61,236                                  |
| 666,732                         | 4,721,965                               |
| 7,164                           | 1,082,145                               |
| 33,001                          | 245,962                                 |
| 992                             | 54,031                                  |
| <u>712,394</u>                  | <u>7,478,874</u>                        |
|                                 | 793,555                                 |
| 612,389                         | 1,013,512                               |
| 212,166                         | 2,020,354                               |
| 398,497                         | 492,224                                 |
|                                 | 169,917                                 |
|                                 | 1,241,615                               |
|                                 | 97,000                                  |
|                                 | 193,895                                 |
| 17,113                          | 594,338                                 |
| <u>197,416</u>                  | <u>1,056,323</u>                        |
| <u>1,437,581</u>                | <u>7,672,733</u>                        |
| <u>(725,187)</u>                | <u>(193,859)</u>                        |
| 772,000                         | 1,845,013                               |
|                                 | (1,845,013)                             |
| <u>772,000</u>                  |   |
| 46,813                          | (193,859)                               |
| 41,596                          | 2,876,995                               |
| <u>\$ 88,409</u>                | <u>\$ 2,683,136</u>                     |

The accompanying notes are an integral part of the financial statements.

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**LETCHER COUNTY  
RECONCILIATION OF THE STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCES OF  
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**LETCHER COUNTY**  
**RECONCILIATION OF THE STATEMENT OF REVENUES,**  
**EXPENDITURES, AND CHANGES IN FUND BALANCES OF**  
**GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

|  |    |           |
|--|----|-----------|
| Net Change in Fund Balances - Total Governmental Funds | \$ | (193,859) |
|--|----|-----------|

Governmental Funds report capital outlays as expenditures. However, in the Statement of Activities the cost of those assets are allocated over their estimated useful lives and reported as depreciation expense.

|                      |  |           |
|----------------------|--|-----------|
| Capital Outlay       |  | 98,727    |
| Depreciation Expense |  | (213,743) |

Bond principal payments are expensed in the Governmental Funds as a use of current financial resources. These transactions, however, have no effect on net assets.

|               |  |        |
|---------------|--|--------|
| Bond Payments |  | 97,000 |
|---------------|--|--------|

|   |    |           |
|---|----|-----------|
| Change in Net Assets of Governmental Activities | \$ | (211,875) |
|---|----|-----------|

The accompanying notes are an integral part of the financial statements.

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**LETCHER COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2005**



**LETCHER COUNTY**  
**STATEMENT OF NET ASSETS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**June 30, 2005**

|                           | <b>Business-Type<br/>Activities -<br/>Enterprise<br/>Fund</b> |
|---------------------------|---|
|                           | <b>Jail<br/>Canteen<br/>Fund</b>                              |
| <b>Assets</b>             |   |
| Current Assets:           |   |
| Cash and Cash Equivalents | \$ 66,182   |
| Total Current Assets      | <u>66,182</u>   |
| Total Assets              | <u>66,182</u>   |
| Unrestricted              | 66,182  |
| Total Net Assets          | <u><u>\$ 66,182</u></u>                                       |

The accompanying notes are an integral part of the financial statements.

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**LETCHER COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**LETCHER COUNTY**  
**STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

|                              | <b>Business-Type<br/>Activities -<br/>Enterprise<br/>Fund</b> |
|------------------------------|---|
|                              | <b>Jail<br/>Canteen<br/>Fund</b>                              |
| <b>Operating Revenues</b>    |   |
| Canteen Receipts             | \$ 186,022  |
| Total Operating Revenues     | <u>186,022</u>  |
| <b>Operating Expenses</b>    |   |
| Canteen Disbursements        | <u>168,001</u>  |
| Total Operating Expenses     | <u>168,001</u>  |
| Operating Income (Loss)      | <u>18,021</u>   |
| Change In Net Assets         | 18,021  |
| Total Net Assets - Beginning | <u>48,161</u>   |
| Total Net Assets - Ending    | <u><u>\$ 66,182</u></u>                                       |

The accompanying notes are an integral part of the financial statements.

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**LETCHER COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**



**LETCHER COUNTY**  
**STATEMENT OF CASH FLOWS - PROPRIETARY FUND - MODIFIED CASH BASIS**

**For The Year Ended June 30, 2005**

|   | <b>Business-Type<br/>Activities -<br/>Enterprise<br/>Fund</b> |
|---|---|
|   | <b>Jail<br/>Canteen<br/>Fund</b>                              |
| <b>Cash Flows From Operating Activities</b>             |   |
| Jail Canteen Receipts                                   | \$ 186,022  |
| Payments to Suppliers                                   | <u>(168,001)</u>  |
| Net Cash Provided By<br>Operating Activities            | <u>18,021</u>   |
| Net Increase (Decrease) in Cash and Cash<br>Equivalents | 18,021  |
| Cash and Cash Equivalents - July 1, 2004                | <u>48,161</u>   |
| Cash and Cash Equivalents - June 30, 2005               | <u><u>\$ 66,182</u></u>                                       |

The accompanying notes are an integral part of the financial statements.

**INDEX FOR NOTES  
TO THE FINANCIAL STATEMENTS**

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**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**Note 1. Summary of Significant Accounting Policies**

**A. Basis of Presentation**

The county presents its government wide and fund financial statements in accordance with a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Notes receivable are recognized on the Statement of Net Assets, but notes receivables are not included and recognized on the Balance Sheet - Governmental Funds. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities; however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance (Reserved for Encumbrances).

The State Local Finance Officer does not require the county to report capital assets and infrastructure; however the value of these assets are included in the Statement of Net Assets and their corresponding depreciation expenses is included on the Statement of Activities.

**B. Reporting Entity**

The financial statements of Letcher County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the Governmental Accounting Standards Board (GASB) Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14 and GASB 39, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Consequently, the reporting entity includes organizations that are legally separate from the primary government. Legally separate organizations are reported as component units if either the county is financially accountable or whose exclusion would cause the county's financial statements to be misleading or incomplete. Component units may be blended or discretely presented. Blended component units either provide their services exclusively or almost entirely to the primary government, or their governing bodies are substantively the same as the primary government. All other component units are discretely presented. The County has no discretely presented component units.

Blended Component Units

The following legally separate organization provides its services exclusively to the primary government and the fiscal court is able to impose its will on this organization. This organization's balances and transactions are reported as though they are part of the county's primary government using the blending method.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**B. Reporting Entity (Continued)**

Blended Component Units (Continued)

Letcher County Public Properties Corporation

The Letcher County Public Properties Corporation is a legally separate entity established for the purpose of renovating the County's courthouse and detention center through issuance of long-term debt in the corporation's name. The Corporation's governing body consists entirely of fiscal court members. Therefore, the fiscal court is financially accountable and legally obligated for the debt of the Letcher County Public Properties Corporation. Financial information for the Letcher County Public Properties Corporation is blended within Letcher County's financial statements. The financial information can be found in the Public Properties Corporation 1964 Bond Fund and Public Properties Corporation 1999 Bond Fund.

**C. Letcher County Elected Officials**

Kentucky law provides for election of the below officials from the geographic area constituting Letcher County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices. These financial statements are not required to be included in the financial statements of Letcher County, Kentucky.

- Circuit Court Clerk
- County Attorney
- Property Valuation Administrator
- County Clerk
- County Sheriff

**D. Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its non-fiduciary component units. For the most part, the effect of interfund activities has been removed from these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on sales, fees, and charges for support. Business-type revenues come mostly from fees charged to external parties for goods or services. Fiduciary funds are not included in these financial statements due to the unavailability of fiduciary funds to aid in the support of government programs.

The government-wide statements are reported using the economic resources measurement focus and the modified cash basis of accounting, as do the proprietary fund financial statements. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

The statement of net assets presents the reporting entity's non-fiduciary assets and liabilities, the difference between the two being reported as net assets. Net assets are reported in three categories:

1) invested in capital assets, net of related debt - consisting of capital assets, net of accumulated depreciation and reduced by outstanding balances for debt related to the acquisition, construction, or improvement of those assets. 2) restricted net assets - resulting from constraints placed on net assets by creditors, grantors, contributors, and other external parties, including those constraints imposed by law through constitutional provisions or enabling legislation. 3) unrestricted net assets - those assets that do not meet the definition of restricted net assets or invested in capital assets.

The statement of activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function 2) operating grants and contributions and 3) capital grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Internally dedicated resources such as taxes and unrestricted state funds are reported as general revenues.

Funds are characterized as either major or non-major. Major funds are those whose assets, liabilities, revenues, or expenditures/expenses are at least ten percent of the corresponding total (assets, liabilities, etc.) for all funds or type (governmental or proprietary funds) and whose total assets, liabilities, revenues, or expenditures/expenses are a least five percent of the corresponding total for all governmental and enterprise funds combined. The fiscal court may also designate any fund as major.

Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major enterprise funds are reported as separate columns in the financial statements.

**Governmental Funds**

All governmental fund statements are reported using the current financial resources measurement focus and the modified cash basis of accounting. The modified cash basis recognizes revenues when received and expenditures when paid. Property tax receivables, accounts payable, compensated absences, and donated assets, among other items, are not reflected in the financial statements.

The primary government reports the following major governmental funds:

**General Fund** - This is the primary operating fund of the Fiscal Court. It accounts for all financial resources of the general government, except where the Governor's Office For Local Development requires a separate fund or where management requires that a separate fund be used for some function.

**Road Fund** - This fund is for road and bridge construction and repair. The primary source of revenue for this fund is state payments for truck licenses distribution, municipal road aid, and transportation grants. The Governor's Office For Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Governmental Funds (Continued)

Local Government Economic Assistance Fund – These funds may be spent for public safety, environmental protection, public transportation, health, recreation, libraries, social services, industrial and economic development, workforce training, and secondary wood industry development. In no event shall these funds be used for expenses relating to the administration of government. The Governor's Office of Local Development requires the Fiscal Court to maintain these revenues and expenditures separately from the General Fund.

Public Properties Corporation 1999 Bond Fund - The purpose of this fund is to account for debt service requirements of general obligation bonds of the Fiscal Court. The Governor's Office For Local Development does not require the Fiscal Court to report or budget these funds.

The primary government also has the following nonmajor funds: Jail, Senior Citizens, Public Properties Corporation 1964 Bond, Abandoned Mines Land, and Forestry Funds.

Special Revenue Funds:

The Road Fund, Jail Fund, Local Government Economic Assistance Fund, Senior Citizens Fund, Abandoned Mines Land Fund, and Forestry Fund are presented as special revenue funds. Special revenue funds are to account for the proceeds of specific revenue sources and expenditures that are legally restricted for specific purposes.

Debt Service Fund:

The Public Properties 1964 Bond Fund and the Public Properties 1999 Bond Fund are presented as debt service funds. Debt service funds are to account for the accumulation of resources for, and the payment of general long-term debt principal and interest.

Generally and except as otherwise provided by law, property taxes are assessed as of January 1, levied (mailed) November 1, due at discount November 30, due at face value December 30, delinquent January 1 following the assessment, and subject to lien and sale the 3rd Saturday in April following the delinquency date.

Proprietary Funds

All proprietary funds are reported using the economic resources measurement focus and the modified cash basis of accounting. Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with proprietary funds' principal ongoing operations. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses. The principal operating revenues of the county's enterprise fund are charges to customers for sales in the Jail Canteen Fund. Operating expenses for the enterprise fund include the cost of sales and services, administrative expenses, and depreciation on capital assets. The government has elected not to adopt Financial Accounting Standards Board (FASB) Statements or interpretations issued after November 30, 1989, unless the Governmental Accounting Standards Board (GASB) specifically adopts such FASB Statements or Interpretations.



**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**D. Government-wide and Fund Financial Statements (Continued)**

Proprietary Funds (Continued)

The primary government reports the following proprietary fund:

Jail Canteen Fund - The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the Jail Canteen Fund.

**E. Deposits and Investments**

The government's cash and cash equivalents are considered to be cash on hand, demand deposits, certificate of deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

**F. Capital Assets**

Capital assets, which include land, land improvements, buildings, furniture and office equipment, building improvements, machinery, equipment, and infrastructure assets (roads and bridges) that have a useful life of more than one reporting period based on the government's capitalization policy, are reported in the applicable governmental or business-type activities of the government-wide financial statements. Such assets are recorded at historical cost or estimated historical cost when purchased or constructed.

Cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not capitalized. Land and Construction In Progress are not depreciated. Interest incurred during construction is not capitalized. Capital assets and infrastructure are depreciated using the straight-line method of depreciation over the estimated useful life of the asset.

|                                     | Capitalization<br>Threshold | Useful Life<br>(Years) |
|-------------------------------------|-----------------------------|------------------------|
| Land Improvements                   | \$ 12,500                   | 10-60                  |
| Buildings and Building Improvements | \$ 25,000                   | 10-75                  |
| Machinery and Equipment             | \$ 2,500                    | 3-25                   |
| Vehicles                            | \$ 2,500                    | 3-25                   |
| Infrastructure                      | \$ 20,000                   | 10-50                  |

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 1. Summary of Significant Accounting Policies (Continued)**

**G. Long-term Obligations**

In the government-wide financial statements and proprietary fund types in the fund financial statements, long term debt and other long-term obligations are reported as liabilities in the applicable financial statements. The principal amount of bonds, notes and financing obligations are reported.

In the fund financial statements, governmental fund types recognize bond interest, as well as bond issuance costs when received or when paid, during the current period. The principal amount of the debt and interest is reported as expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures. Debt proceeds are reported as other financing sources.

**H. Fund Equity**

In the fund financial statements, the difference between the assets and liabilities of governmental funds is reported as fund balance. Fund balance is divided into reserved and unreserved components, with unreserved considered available for new spending. Unreserved fund balances, may be divided into designated and undesignated portions. Designations represent fiscal court's intended use of the resources and should reflect actual plans approved by the fiscal court.

Governmental funds report reservations of fund balance for amounts that are legally restricted by outside parties for use for a specific purpose, long-term receivables, and encumbrances.

"Reserved for Encumbrances" are purchase orders that will be fulfilled in a subsequent fiscal period. Although the purchase order or contract creates a legal commitment, the fiscal court incurs no liability until performance has occurred on the part of the party with whom the fiscal court has entered into the arrangement. When a government intends to honor outstanding commitments in subsequent periods, such amounts are encumbered. Encumbrances lapse at year-end and are not reflected on the Statement of Net Assets and Statement of Activities, however encumbrances are reflected on the Balance Sheet - Governmental Funds as part of the fund balance.

**I. Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

The State Local Finance Officer does not require the county to budget the Letcher County Public Properties 1964 Bond Fund and the Letcher County Public Properties 1999 Bond Fund.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 2. Deposits**

The primary government and component units maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) in accordance with KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a depository institution's failure, the County's deposits may not be returned to it. The County does not have a deposit policy for custodial risk but rather follows the requirements of KRS 41.240(4). As of June 30, 2005, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

**Note 3. Capital Assets**

Capital asset activity for the year ended June 30, 2005 was as follows:

|   | Reporting Entity     |              |           |                   |
|---|----------------------|--------------|-----------|-------------------|
|   | Beginning<br>Balance | Increases    | Decreases | Ending<br>Balance |
| <b>Primary Government:</b>                      |                      |              |           |                   |
| <u>Governmental Activities:</u>                 |                      |              |           |                   |
| Capital Assets Not Being Depreciated:           |                      |              |           |                   |
| Land and Land Improvements                      | \$ 1,416,000         | \$           | \$        | \$ 1,416,000      |
| Total Capital Assets Not Being<br>Depreciated   | 1,416,000            |              |           | 1,416,000         |
| Capital Assets, Being Depreciated:              |                      |              |           |                   |
| Buildings                                       | 7,034,000            |              |           | 7,034,000         |
| Vehicles and Equipment                          | 498,691              |              |           | 498,691           |
| Infrastructure                                  | 158,444              | 98,727       |           | 257,171           |
| Total Capital Assets Being<br>Depreciated       | 7,691,135            | 98,727       |           | 7,789,862         |
| Less Accumulated Depreciation For:              |                      |              |           |                   |
| Buildings                                       | (1,216,447)          | (160,412)    |           | (1,376,859)       |
| Vehicles and Equipment                          | (143,337)            | (45,102)     |           | (188,439)         |
| Infrastructure                                  | (5,070)              | (8,229)      |           | (13,299)          |
| Total Accumulated Depreciation                  | (1,364,854)          | (213,743)    |           | (1,578,597)       |
| Total Capital Assets, Being<br>Depreciated, Net | 6,326,281            | (115,016)    |           | 6,211,265         |
| Governmental Activities Capital<br>Assets, Net  | \$ 7,742,281         | \$ (115,016) | \$        | \$ 7,627,265      |

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 3. Capital Assets (Continued)**

Depreciation expense was charged to functions of the primary government as follows:

Governmental Activities:

|  |                   |
|--|-------------------|
| General Government                                   | \$ 125,267        |
| Protection to Persons and Property                   | 17,217            |
| General Health and Sanitation                        | 18,689            |
| Social Services                                      | 12,266            |
| Recreation and Culture                               | 9,242             |
| Roads  | <u>31,062</u>     |
| Total Depreciation Expense - Governmental Activities | <u>\$ 213,743</u> |

**Note 4. Long-term Debt**

**A. General Obligation Bonds, Series 1999**

On January 18, 1999, The Public Properties Corporation issued bonds in order to renovate the courthouse and detention center. On January 1, 1999, the Letcher County Public Properties Corporation and the Administrative Office of the Court (AOC) entered into a lease agreement for the purpose of obtaining office rental space for the AOC.

The premises leased by AOC will provide revenues to pay a portion of the bond principal and interest. Under the terms of the lease, the AOC has agreed to pay directly to the paying agents bank their pro rated share of the use allowance payment as provided in the lease. The lease agreement is renewable each year. The county and the Public Properties Corporation are in reliance upon the use allowance payment in order to meet a portion of the debt service requirement for the bonds.

The use allowance payment commences with occupancy by AOC. The AOC, with the execution of the lease, has expressed its intention to continue to pay the full use allowance payment in each successive biennial budget period until May 1, 2027, but the lease does not legally obligate AOC to do so.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 4. Long-term Debt (Continued)**

**General Obligation Bonds, Series 1999 (Continued)**

As of June 30, 2005, the principal balance remaining was \$3,985,000. Future bond payments are as follows:

| Fiscal Year Ended<br>June 30 | Governmental Activities |                     |
|------------------------------|-------------------------|---------------------|
|                              | Principal               | Interest            |
| 2006                         | \$ 101,000              | \$ 189,288          |
| 2007                         | 107,000                 | 184,490             |
| 2008                         | 112,000                 | 179,408             |
| 2009                         | 119,000                 | 174,088             |
| 2010                         | 125,000                 | 168,435             |
| 2011-2015                    | 725,000                 | 747,033             |
| 2016-2020                    | 931,000                 | 556,273             |
| 2021-2025                    | 1,197,000               | 311,125             |
| 2026-2027                    | 568,000                 | 47,643              |
| Totals                       | <u>\$ 3,985,000</u>     | <u>\$ 2,557,782</u> |

**B. Changes in Long-term Liabilities**

Long-term liability activity for the year ended June 30, 2005, was as follows:

|                                 | Beginning<br>Balance | Additions | Reductions       | Ending<br>Balance   | Due Within<br>One Year |
|---------------------------------|----------------------|-----------|------------------|---------------------|------------------------|
| <b>Primary Government:</b>      |                      |           |                  |                     |                        |
| <u>Governmental Activities:</u> |                      |           |                  |                     |                        |
| General Obligation Bonds        | \$ 4,082,000         | \$        | \$ 97,000        | \$ 3,985,000        | \$ 101,000             |
| Governmental Activities         |                      |           |                  |                     |                        |
| Long-term Liabilities           | <u>\$ 4,082,000</u>  | <u>\$</u> | <u>\$ 97,000</u> | <u>\$ 3,985,000</u> | <u>\$ 101,000</u>      |

**Note 5. Interest On Long-term Debt and Financing Obligations**

Debt Service on the Statement of Activities includes \$193,895 in interest on bonds.

**LETCHER COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
**June 30, 2005**  
**(Continued)**

**Note 6. Employee Retirement System**

The Fiscal Court has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost sharing, multiple-employer defined benefit pension plan, which covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 8.48 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report. This report may be obtained by writing the Kentucky Retirement System, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

**Note 7. Insurance**

For the fiscal year ended June 30, 2005, Letcher County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**





**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**

**For The Year Ended June 30, 2005**

|                                       | <b>GENERAL FUND</b> |              |                                  |  |
|---------------------------------------|---------------------|--------------|----------------------------------|--|
|                                       | Budgeted Amounts    |              | Actual                           | Variance with                          |
|                                       | Original            | Final        | Amounts,<br>(Budgetary<br>Basis) | Final Budget<br>Positive<br>(Negative) |
| <b>REVENUES</b>                       |                     |              |                                  |  |
| Taxes                                 | \$ 1,155,000        | \$ 1,191,616 | \$ 1,290,354                     | \$ 98,738                              |
| Excess Fees                           | 4,201               | 61,236       | 61,236                           |  |
| Intergovernmental Revenue             | 71,142              | 587,792      | 636,764                          | 48,972                                 |
| Charges for Services                  | 1,055,000           | 1,055,000    | 1,074,981                        | 19,981                                 |
| Miscellaneous                         | 94,321              | 114,794      | 195,436                          | 80,642                                 |
| Interest                              | 7,500               | 7,500        | 7,064                            | (436)                                  |
| Total Revenues                        | 2,387,164           | 3,017,938    | 3,265,835                        | 247,897                                |
| <b>EXPENDITURES</b>                   |                     |              |                                  |  |
| General Government                    | 563,601             | 702,767      | 674,655                          | 28,112                                 |
| Protection to Persons and Property    | 270,975             | 300,729      | 298,962                          | 1,767                                  |
| General Health and Sanitation         | 520,659             | 1,186,803    | 1,136,450                        | 50,353                                 |
| Social Services                       | 105,000             | 105,000      | 74,585                           | 30,415                                 |
| Debt Service                          |                     |              |                                  |  |
| Principal                             | 97,000              | 97,000       |                                  | 97,000                                 |
| Interest                              | 232,000             | 102,387      |                                  | 102,387                                |
| Capital Projects                      | 160,813             | 16,000       | 15,740                           | 260                                    |
| Administration                        | 721,592             | 737,713      | 679,309                          | 58,404                                 |
| Total Expenditures                    | 2,671,640           | 3,248,399    | 2,879,701                        | 368,698                                |
| Excess (Deficiency) of Revenues       |                     |              |                                  |  |
| Over Expenditures Before Other        | (284,476)           | (230,461)    | 386,134                          | 616,595                                |
| Financing Sources (Uses)              |                     |              |                                  |  |
| <b>OTHER FINANCING SOURCES (USES)</b> |                     |              |                                  |  |
| Transfers From Other Funds            | 84,476              | 84,476       | 450,000                          | 365,524                                |
| Transfers To Other Funds              |                     |              | (643,013)                        | (643,013)                              |
| Total Other Financing Sources (Uses)  | 84,476              | 84,476       | (193,013)                        | (277,489)                              |
| Net Changes in Fund Balances          | (200,000)           | (145,985)    | 193,121                          | 339,106                                |
| Fund Balances - Beginning             | 200,000             | 200,000      | 193,824                          | (6,176)                                |
| Fund Balances - Ending                | \$                  | \$ 54,015    | \$ 386,945                       | \$ 332,930                             |

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

|                                       | <b>ROAD FUND</b>        |                  |   |   |
|---------------------------------------|-------------------------|------------------|---|---|
|                                       | <b>Budgeted Amounts</b> |                  | <b>Actual</b>                             | <b>Variance with</b>                            |
|                                       | <b>Original</b>         | <b>Final</b>     | <b>Amounts,<br/>(Budgetary<br/>Basis)</b> | <b>Final Budget<br/>Positive<br/>(Negative)</b> |
| <b>REVENUES</b>                       |                         |                  |   |   |
| In Lieu of Taxes                      | \$ 795                  | \$ 795           | \$ 1,709                                  | \$ 914  |
| Intergovernmental Revenue             | 1,037,987               | 1,037,987        | 911,468                                   | \$ (126,519)                                    |
| Miscellaneous                         | 1,150                   | 1,150            | 163                                       | (987)   |
| Interest                              | 9,000                   | 9,000            | 16,650                                    | 7,650   |
| Total Revenues                        | <u>1,048,932</u>        | <u>1,048,932</u> | <u>929,990</u>                            | <u>(118,942)</u>                                |
| <b>EXPENDITURES</b>                   |                         |                  |   |   |
| General Government                    | 26,521                  | 26,521           | 25,188                                    | 1,333   |
| General Health and Sanitation         | 19,277                  | 19,278           | 19,277                                    | 1   |
| Roads                                 | 798,258                 | 808,554          | 733,727                                   | 74,827  |
| Administration                        | 120,400                 | 1,094,366        | 147,761                                   | 946,605   |
| Total Expenditures                    | <u>964,456</u>          | <u>1,948,719</u> | <u>925,953</u>                            | <u>1,022,766</u>                                |
| Excess (Deficiency) of Revenues       |                         |                  |   |   |
| Over Expenditures Before Other        | <u>84,476</u>           | <u>(899,787)</u> | <u>4,037</u>                              | <u>903,824</u>                                  |
| Financing Sources (Uses)              |                         |                  |   |   |
| <b>OTHER FINANCING SOURCES (USES)</b> |                         |                  |   |   |
| Transfers From Other Funds            |                         |                  | 430,000                                   | 430,000   |
| Transfers To Other Funds              | <u>(84,476)</u>         | <u>(84,476)</u>  | <u>(430,000)</u>                          | <u>(345,524)</u>                                |
| Total Other Financing Sources (Uses)  | <u>(84,476)</u>         | <u>(84,476)</u>  |   | <u>84,476</u>                                   |
| Net Changes in Fund Balances          |                         | (984,263)        | 4,037                                     | 988,300   |
| Fund Balances - Beginning             |                         | <u>984,263</u>   | <u>984,263</u>                            |   |
| Fund Balances - Ending                | <u>\$</u>               | <u>\$</u>        | <u>\$ 988,300</u>                         | <u>\$ 988,300</u>                               |

**LETCHER COUNTY**  
**BUDGETARY COMPARISON SCHEDULES**  
**Required Supplementary Information - Modified Cash Basis**  
**For The Year Ended June 30, 2005**  
**(Continued)**

|   | <b>Local Governmental Economic Assistance Fund</b> |                  |  |   |
|---|--|------------------|--|---|
|   | <b>Budgeted Amounts</b>                            |                  | <b>Actual<br/>Amounts,<br/>(Budgetary<br/>Basis)</b> | <b>Variance with<br/>Final Budget<br/>Positive<br/>(Negative)</b> |
|   | <b>Original</b>                                    | <b>Final</b>     |  |   |
| <b>REVENUES</b>   |  |                  |  |   |
| Taxes   | \$ 28,000  | \$ 28,000        | \$ 16,967  | \$ (11,033)   |
| Intergovernmental   | 2,172,610  | 2,776,973        | 2,379,001  | (397,972)   |
| Miscellaneous   | 6,800  | 14,862           | 17,362   | 2,500   |
| Interest  | 16,000   | 16,000           | 23,392   | 7,392   |
| Total Revenues  | <u>2,223,410</u>                                   | <u>2,835,835</u> | <u>2,436,722</u>                                     | <u>(399,113)</u>  |
| <b>EXPENDITURES</b>   |  |                  |  |   |
| General Government  | 43,043   | 96,343           | 93,712   | 2,631   |
| Protection to Persons and Property  | 44,452   | 110,022          | 102,161  | 7,861   |
| General Health and Sanitation   | 192,393  | 667,643          | 652,461  | 15,182  |
| Social Services   | 12,400   | 20,400           | 19,142   | 1,258   |
| Recreation and Culture  | 112,879  | 173,100          | 169,917  | 3,183   |
| Roads   | 529,890  | 529,890          | 507,888  | 22,002  |
| Capital Project   | 1,337,834  | 1,268,691        | 561,485  | 707,206   |
| Administration  | 29,200   | 223,235          | 31,837   | 191,398   |
| Total Expenditures  | <u>2,302,091</u>                                   | <u>3,089,324</u> | <u>2,138,603</u>                                     | <u>950,721</u>  |
| Excess (Deficiency) of Revenues<br>Over Expenditures Before Other<br>Financing Sources (Uses) | <u>(78,681)</u>                                    | <u>(253,489)</u> | <u>298,119</u>                                       | <u>551,608</u>  |
| <b>OTHER FINANCING SOURCES (USES)</b>   |  |                  |  |   |
| Transfers From Other Funds  |  |                  |  |   |
| Transfers To Other Funds  | <u>(621,319)</u>                                   | <u>(621,319)</u> | <u>(772,000)</u>                                     | <u>(150,681)</u>  |
| Total Other Financing Sources (Uses)  | <u>(621,319)</u>                                   | <u>(621,319)</u> | <u>(772,000)</u>                                     | <u>(150,681)</u>  |
| Net Changes in Fund Balances  | <u>(700,000)</u>                                   | <u>(874,808)</u> | <u>(473,881)</u>                                     | <u>400,927</u>  |
| Fund Balances - Beginning   | <u>700,000</u>                                     | <u>969,808</u>   | <u>1,373,824</u>                                     | <u>404,016</u>  |
| Fund Balances - Ending  | <u>\$</u>  | <u>\$ 95,000</u> | <u>\$ 899,943</u>                                    | <u>\$ 804,943</u>   |

**LETCHER COUNTY**  
**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION**

**June 30, 2005**

**Budgetary Information**

Annual budgets are adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer.

The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level.

**LETCHER COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**

**Other Supplementary Information**

**June 30, 2005**



**LETCHER COUNTY**  
**COMBINING BALANCE SHEET - NON-MAJOR GOVERNMENTAL FUNDS -**  
**MODIFIED CASH BASIS**  
**Other Supplementary Information**

**June 30, 2005**

|                           | <b>Jail<br/>Fund</b> | <b>Senior<br/>Citizens<br/>Fund</b> | <b>Forestry<br/>Fund</b> | <b>Total<br/>Non-Major<br/>Governmental<br/>Funds</b> |
|---------------------------|----------------------|-------------------------------------|--------------------------|---|
| <b>ASSETS</b>             |                      |                                     |                          |   |
| Cash and Cash Equivalents | \$ 40,531            | \$ 45,153                           | \$ 2,725                 | \$ 88,409   |
| Total assets              | <u>\$ 40,531</u>     | <u>\$ 45,153</u>                    | <u>\$ 2,725</u>          | <u>\$ 88,409</u>                                      |
| <b>FUND BALANCES</b>      |                      |                                     |                          |   |
| Reserved for:             |                      |                                     |                          |   |
| Encumbrances              | \$ 1,896             | \$ 5,326                            | \$                       | \$ 7,222  |
| Unreserved:               |                      |                                     |                          |   |
| Special Revenue Fund      | <u>38,635</u>        | <u>39,827</u>                       | <u>2,725</u>             | <u>81,187</u>   |
| Total Fund Balances       | <u>\$ 40,531</u>     | <u>\$ 45,153</u>                    | <u>\$ 2,725</u>          | <u>\$ 88,409</u>                                      |

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**LETCHER COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**

**LETCHER COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**

**For The Year Ended June 30, 2005**

|   | <b>Jail<br/>Fund</b>    | <b>Senior<br/>Citizens<br/>Fund</b> | <b>Forestry<br/>Fund</b> | <b>Public<br/>Properties<br/>Corporation<br/>1964 Bond<br/>Fund</b> |
|---|-------------------------|-------------------------------------|--------------------------|---|
| <b>REVENUES</b>   |                         |                                     |                          |   |
| Taxes   | \$                      | \$                                  | \$ 4,505                 | \$  |
| Intergovernmental   | 345,415                 | 143,617                             |                          |   |
| Charges for Services  | 7,164                   |                                     |                          |   |
| Miscellaneous   | 22,952                  | 10,049                              |                          |   |
| Interest  | 598                     | 394                                 |                          |   |
| Total Revenues  | <u>\$ 376,129</u>       | <u>\$ 154,060</u>                   | <u>\$ 4,505</u>          | <u>\$</u>   |
| <b>EXPENDITURES</b>   |                         |                                     |                          |   |
| Protection to Persons and Property  | \$ 608,748              |                                     | \$ 3,641                 | \$  |
| General Health and Sanitation   |                         | \$ 34,466                           |                          |   |
| Social Services   |                         | 398,497                             |                          |   |
| Capital Projects  |                         | 17,113                              |                          |   |
| Administration  | 123,822                 | 73,532                              |                          | 62  |
| Total Expenditures  | <u>\$ 732,570</u>       | <u>\$ 523,608</u>                   | <u>\$ 3,641</u>          | <u>\$ 62</u>  |
| Excess (Deficiency) of Revenues Over<br>Expenditures Before Other<br>Financing Sources (Uses) | <u>(356,441)</u>        | <u>(369,548)</u>                    | <u>864</u>               | <u>(62)</u>   |
| <b>Other Financing Sources (Uses)</b>   |                         |                                     |                          |   |
| Transfer From Other Funds   | <u>372,000</u>          | <u>400,000</u>                      |                          |   |
| Total Other Financing Sources (Uses)  | <u>372,000</u>          | <u>400,000</u>                      |                          |   |
| Net Change in Fund Balances   | 15,559                  | 30,452                              | 864                      | (62)  |
| Fund Balances - Beginning   | 24,972                  | 14,701                              | 1,861                    | 62  |
| Fund Balances - Ending  | <u><u>\$ 40,531</u></u> | <u><u>\$ 45,153</u></u>             | <u><u>\$ 2,725</u></u>   | <u><u>\$</u></u>  |

**LETCHER COUNTY**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES**  
**IN FUND BALANCES - NON-MAJOR GOVERNMENTAL FUNDS - MODIFIED CASH BASIS**  
**Other Supplementary Information**  
**For The Year Ended June 30, 2005**  
**(Continued)**

| <b>Abandoned<br/>Mines Land<br/>Fund</b> | <b>Total<br/>Non-Major<br/>Governmental<br/>Funds</b> |
|--|---|
|  |   |
| \$                                       | \$ 4,505  |
| 177,700                                  | 666,732   |
|  | 7,164   |
|  | 33,001  |
|  | 992   |
| <u>\$ 177,700</u>                        | <u>712,394</u>  |
|  |   |
| \$                                       | \$ 612,389  |
| 177,700                                  | 212,166   |
|  | 398,497   |
|  | 17,113  |
|  | 197,416   |
| <u>\$ 177,700</u>                        | <u>\$ 1,437,581</u>                                   |
|  |   |
| <u></u>                                  | <u>(725,187)</u>                                      |
|  |   |
| <u></u>                                  | <u>772,000</u>  |
| <u></u>                                  | <u>772,000</u>  |
|  |   |
|  | 46,813  |
|  | 41,596  |
| <u>\$</u>                                | <u>\$ 88,409</u>                                      |

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**LETCHER COUNTY  
COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2005**



**LETCHER COUNTY**  
**COMMENTS AND RECOMMENDATIONS**

**For The Year Ended June 30, 2005**

**STATE LAWS AND REGULATIONS**

**The Fiscal Court Should Annually Review The Administrative Code**

The latest revision of the Administrative Code was in the mid 1980s. KRS 68.005 requires the fiscal court to annually review the Administrative Code. We recommend the fiscal court comply with KRS 68.005.

*County Judge/Executive Response: We will review the Administrative Code during July 2006 Fiscal Court meeting.*

**The Jailer Should Submit An Annual Settlement To The County Treasurer**

The Jailer did not submit a Jail Canteen annual report to the County Treasurer as required by KRS 441.135. In addition, we noted the following deficiencies with the monthly reports:

- Deposits/receipts were not itemized or identified by source
- Disbursements were not classified/identified as to reveal the purpose of the expenditure

We recommend the Jailer comply with KRS 441.135 by submitting an annual settlement to the County Treasurer and up grading the accounting system to correct the above noted deficiencies.

*County Jailer Response: Corrected fiscal year 05-06.*

**Jail Operating Expenditures Should Be Paid From The Jail Fund**

Jail operating expenditures should not be paid from the Jail Canteen account. We found that numerous operating expenditures were paid from the Jail Canteen account rather than from the Jail Fund maintained by the fiscal court. These expenditures consisted of routine jail operating supplies and inmate personal hygiene items. KRS 441.335(2), which authorizes the jailer to sell snacks, sodas, and other items, states that profits generated from sales of these items are to be used for the benefit or recreation of the inmates. Therefore, jail operating expenditures are not an allowable expense of the jail canteen. We recommend that only expenditures for the benefit or recreation of the inmates be made from the Jail Canteen account.

*County Jailer Response: Corrected fiscal year 05-06.*

**PRIOR YEAR FINDINGS**

**Prior Year Findings That Have Not Been Corrected:**

The Fiscal Court Should Review The Administrative Code Annually

The Jailer Should Submit His Annual Jail Canteen Report To The County Treasurer

Jail Operating Expenditures Should Be Paid From The Jail Fund

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING  
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL  
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**



**ROSS & COMPANY, PLLC**  
**Certified Public Accountants**  
**800 Envoy Circle**  
**Louisville, KY 40299**  
**Telephone (502) 499-9088**  
**Facsimile (502) 499-9132**  
**www.rosscpas.com**

The Honorable Carroll Smith, Letcher County Judge/Executive  
Members of the Letcher County Fiscal Court

**Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Letcher County, Kentucky, as of and for the year ended June 30, 2005, which collectively comprise the County's basic financial statements, as listed in the table of contents and have issued our report thereon dated June 23, 2006. Letcher County, Kentucky prepares its financial statements in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Letcher County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Letcher County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying comments and recommendations.

- The Fiscal Court Should Annually Review The Administrative Code
- The Jailer Should Submit An Annual Settlement To The County Treasurer
- Jail Operating Expenditures Should Be Paid From The Jail Fund

Report On Internal Control Over Financial Reporting  
And On Compliance And Other Matters Based On An Audit Of Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management, and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in cursive script, appearing to read "Ross and Company", written in black ink.

Ross and Company, PLLC

Audit fieldwork completed -  
June 23, 2006

**CERTIFICATION OF COMPLIANCE -  
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**

**LETCHER COUNTY FISCAL COURT**

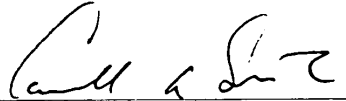
**For The Fiscal Year Ended  
June 30, 2005**



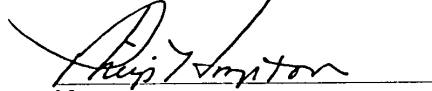
**CERTIFICATION OF COMPLIANCE**  
**LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM**  
**LETCHER COUNTY FISCAL COURT**

For the Fiscal Year Ended June 30, 2005

The Letcher County Fiscal Court hereby certifies that assistance received from the Local Government Economic Assistance Program was expended for the purpose intended as dictated by the applicable Kentucky Revised Statutes.



\_\_\_\_\_  
Name  
County Judge Executive



\_\_\_\_\_  
Name  
County Treasurer